Reading Borough Council and Group

Annual Audit Letter for the year ended 31 March 2019

February 2022

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Reading Borough Council & Group (the Council) following completion of our audit procedures for the year ended 31 March 2019. Covid-19 had an impact on a number of aspects of our 2018/19 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. As the 2018/19 accounts were significantly delayed the Council was unable to meet this new timetable.
Impact on our risk assessment	
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans needed revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
► Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic needed to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: • Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and • Agreed IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont’d)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council’s:	
► Financial statements	Qualified – We were not able to obtain sufficient appropriate audit evidence because management were unable to provide adequate supporting documentation in relation to the following opening balances: short-term creditors and pension liability. Since opening balances impact the determination of the results of operations for the year, we are unable to determine whether there have been any consequential impacts on the income statement for the year ended 31 March 2019. For the same reason, we were also unable to determine whether the costs of services part of the comprehensive income and expenditure statement had been properly classified. Our opinion on the financial statements for the year ended 31 March 2018 was modified accordingly. Our opinion on the current period’s financial statements is also modified because of the possible effect of this matter on the comparability of the current period’s figures and the corresponding figures. We included an Emphasis of Matter in respect of the Impact of Covid-19. We concluded that our opinion is not modified in respect of this matter.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts.
► Concluding on the Council’s arrangements for securing economy, efficiency and effectiveness	We concluded that the Council did not have in place proper arrangements to secure value for money in its use of resources. We specifically qualified the following sib-criteria with an Adverse Opinion: Informed Decision Making; and Working with Partners and Third Parties.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council and Group.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	Due to the delays in the certification of the 2018/19 accounts we were not required to complete the WGA procedures as the reporting period was already closed.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued and presented to the Audit & Governance Committee on 19 July 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued our audit completion certificate on 29 September 2019.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Maria Grindley
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 19 July 2021 Audit & Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2018/19 audit work was undertaken in accordance with the Audit Plan that we presented on 28 January 2021 and the subsequent scope updates communicated through the initial audit results report we presented on 30 July 2020. Our audit was conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors, we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. We have substantially completed the WGA review and will submit in line with the revised NAO timetable.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued a qualified audit report on 29 September 2021.

Our detailed findings were reported to the 19 July 2021 Audit & Governance Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Inappropriate capitalisation of revenue expenditure due to fraud or error Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. From our risk assessment, we have assessed that the risk manifest itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund. Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts, so we focused on the judgement applied to these classifications. We focused our substantive testing on the risk of incorrectly classifying revenue expenditure as capital additions, this would decrease the net expenditure from the general fund, and increase the value of non-current assets.	We: • Examined invoices for significant additions, capital expenditure authorisations, leases and other data that support these additions. We reviewed the sample selected against the definition of capital expenditure in IAS16. • Extended our testing of items capitalised in the year by lowering our testing threshold. • Reviewed a larger random sample of capital additions below our testing threshold. • Tested REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. • Identified and reviewed the basis for significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. Based on the procedures we performed, we have reached the following conclusions: • We did not identify any evidence of material management override. • We did not identify any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions. • We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Financial Statement Audit

Significant Risk	Conclusion
Impact of Qualified Accounts from 2017/18 – Income and Expenditure, Debtors and Creditors, and IAS 19 Pension Assets The 2017/18 audit was significantly delayed due to significant internal control issues identified as part of the audit. As a result the certification date of 30th September 2018 was missed with final certification on the audit taking place in October 2020. The audit opinion was also qualified across the key significant accounts: Income and Expenditure; Debtors; Creditors; and Pensions (IAS 19) Scheme Assets. These specific accounts were qualified in 2017/18 as we were unable to obtain sufficient appropriate audit evidence to confirm that these accounts were materially correct. We reviewed any brought forward closing balances from 2017/18 which had an associated qualification and we considered the impact on qualification of opening balances for 2018/19 where appropriate. We designed our substantive testing procedures to understand how we can test these balances and obtain the appropriate audit evidence required. This involved testing at appropriate thresholds which reflected the increased risk profile of these accounts and the associated significant risk. On specific areas of Income and Expenditure testing we disaggregated the balances to isolate specific accounts to see if we could obtain the relevant assurance.	We completed our testing on the areas where we identified material errors in the prior year and where we issued a qualified opinion. Income and Expenditure: In the previous year, 2017/18, three specific lines on I&E were qualified. These were: Corporate Support Services Income; Environment and Neighbourhood Income and Expenditure. We completed our testing and that has not identified any material issues in these areas this year. However, the clearance of historical creditor balances in respect of NNDR through the I&E line, Corporate Support Services income has led to a qualification on the classification of this area. Short-term Creditors (Council and Group): We completed our testing and whilst the opening balance was qualified, the Council has amended the balance for historical issues and therefore there is no closing balance qualification on short-term creditors. Short-term Debtors (Council and Group): We completed our testing and identified no material errors on short-term debtors. The qualification on this account has therefore been removed in 2018/19. Pensions/IAS 19 We completed our testing and were able to remove the qualification from the closing 2018/19 balances. For further details see page 15

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Area of Audit Focus	Conclusion
Valuation of Property, Plant and Equipment ("PPE") and Investment Property ("IP") The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We: • Considered the work performed by the Council's valuation specialists, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. This review includes the use of EY internal real estate specialists. • Tested a sample of key asset information used by the valuers in performing their valuation. • Considered the annual cycle of PPE valuations to ensure that assets have been valued within a 5 year rolling programme as required by the CIPFA Code of Practice. • Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated. • Considered changes to useful economic lives as a result of the most recent valuation. • Tested that accounting entries have been correctly processed in the financial statements. During completion of this work we agreed adjustments in respect of valuations which the Council has processed. As a result of completing our work the balances are materially stated.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Area of Audit Focus	Conclusion
Pension Liability Valuation The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Royal Borough of Windsor and Maidenhead. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Group's balance sheet. At 31 March 2019 this totalled £454 million.	We were satisfied that the required IAS 19 disclosures have been reflected in the financial statements and were based on accurate supporting information. We noted no material issues from the work completed. We were therefore able to remove the qualification on IAS 19 closing balances having obtained the IAS 19 Assurance letter from the auditor of Berkshire Pension Fund for 2018/19. The qualification still remains for the opening IAS 19 balances as a result of the prior year qualification on closing balances in 2017/18. <u>McCloud and Goodwin rulings</u> The Council have accounted for the McCloud impact in year. We noted a potential impact of £0.8 m in respect of the Goodwin ruling. The Council have not recognised this potential impact due to uncertainty on the impact. We have included the £0.8 m as a judgemental mis-statement at Section 4.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Area of Audit Focus	Conclusion
IFRS 9 financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. We are currently in discussion with officers on the appropriate accounting treatment for some equities.	We: • Obtained the Council's assessment of the impact of IFRS 9; • Considered which elements of the financial statements would be most affected by the standard, and focused our testing on these areas – specifically bad debt provisions and the valuation and classification of financial assets; • Considered the classification and valuation of financial instrument assets; • Assessed whether or not bad debt provisions appropriately reflected the expected credit loss model; and • Checked disclosure requirements. As a result of the work performed, the financial statements have been updated to better reflect the impact of IFRS 9, including an update to the accounting policy, an amendment to the financial instruments note, and an update of terminology used.

Financial Statement Audit (cont’d)

The key issues identified as part of our audit were as follows: (cont’d)

Other Area of Audit Focus	Conclusion
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We: • Obtained the Council’s assessment of the impact of IFRS 15, which concluded that the impact was not material; • Considered application to the authority’s revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • checked additional disclosure requirements. There are no issues arising that we wished to bring to your attention. We note that IFRS 15 has not had a material impact on the Council and Group in 2018/19.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Area of Audit Focus	Conclusion
Group Accounts – Differences in Accounting Policies of the Components We performed the group scoping for the subsidiaries of Reading Borough Council and identified two new subsidiaries as being significant for our audit of the Council's group accounts for 2018/19: Brighter Futures For Children Limited and Homes for Reading Limited. Reading Transport Limited remains significant from our 2017/18 audit. We are aware that all the subsidiaries follow FRS102 for their accounts preparation, while the Council's group accounts follow the CIPFA Code, supported by IFRS.	We: • Identified material subsidiary balances and transactions consolidated in the Group accounts and assessed whether the accounting treatment of those amounts complies with the Group accounting policies and also the CIPFA Code; • Where exceptions were identified, we requested for management's assessment and reviewed it for reasonableness; • Instructed the relevant component auditors to report to us under the group accounting policies; • Checked additional disclosure requirements in the Group accounts of the Council. Our work is now complete. As a result of our procedures, we did not identify any significant differences in accounting policies that haven't been adjusted for in the group accounts. The audit process revealed a correction of error to align the group accounting treatment of investment properties held by the subsidiary Homes for Reading Ltd with the subsidiary's accounting treatment. The investments amounting to £27.3m at 31 March 2019 (£5.9m at 31 March 2018) were reclassified from property, plant and equipment in the group accounts to investment properties. This also resulted in a restatement of comparatives.

Financial Statement Audit (cont’d)

The key issues identified as part of our audit were as follows: (cont’d)

Other Area of Audit Focus	Conclusion
Going Concern Disclosure Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure. CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor’s report. We are obliged to report on such matters within the section of our audit report ‘Conclusions relating to Going Concern’. To do this, the auditor must review management’s assessment of the going concern basis applying IAS1 Presentation of Financial Statements.	We: • Assessed the adequacy of disclosures required in 2018/19, and the impact on our opinion, should these be inadequate; • Discussed management’s going concern assessment and considered any evidence of bias and consistency within the accounts; • Ensured that an appropriate going concern disclosure has been made within the financial statements; and • Considered the impact on our audit report and compliance with EY consultation requirements. We finalised our review of the updated Going Concern disclosures and concluded that these present an accurate reflection of the Going Concern position at Reading Borough Council and Group for 2018-19. We included an Emphasis of Matter paragraph in the audit report in respect of Going Concern and Covid-19.

Financial Statement Audit (cont’d)

The key issues identified as part of our audit were as follows: (cont’d)

Other Area of Audit Focus	Conclusion
PFI Long-Term Liabilities and Deferred Income The Council is engaged in two Private Finance Initiatives (PFI) contracts: one is with FCC (RE3 Limited) for the shared Waste PFI with Bracknell Forest Borough Council and Wokingham Borough Council and the other with Affinity (Reading) Limited for the North Whitley Housing PFI scheme. After an assessment under the requirements of IFRIC 12, it has been determined that both arrangements are controlled by the Council.	We: • Included a review of the assumptions used in the PFI accounting model to assess whether there have been any changes since our last review; • reviewed the planned entries and disclosures for the Council’s 2018/19 accounts and ensure that they are reported in line with the standards. We have completed our final review of the PFI models and the corresponding assets and liabilities recognised in the Balance Sheet. We noted no material issue with the models and corresponding entries.

Financial Statement Audit (cont’d)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined Group planning materiality to be £5.525 m, which is 1% (PY: 1%) of gross expenditure reported in the accounts adjusted for revaluation losses, but including pension interest costs, payments of precepts and investment property running costs. Council only planning materiality was set at £5.291 m which is 1% (PY: 1%). Tolerable Error (TE) was set at 50% for the Group and Council respectively resulting in £2.763 m and £2.645 m. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council and Group.
Revised Planning Materiality	As a result of a large adjustment which reduced gross revenue expenditure we needed to revise our materiality at the end of the audit and complete additional procedures. Group planning materiality reduced from £5.525 m to £4.767 m. Council planning materiality reduced from £5.291 m to £4.553 m. Tolerable Error was also reduced from £2.763 m and £2.645 m to £2.393 m and £2.276 m.
Reporting threshold	We communicated to the Audit & Governance Committee that we would report to the Committee all audit differences in excess of £0.276 m & £0.264 m for the Group and Council respectively. As a result of the revision noted above this reduced to £0.239 m & £0.228 m for the Group & Council respectively.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: we agreed all disclosures back to source data and approved amounts.
- Related party transactions: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

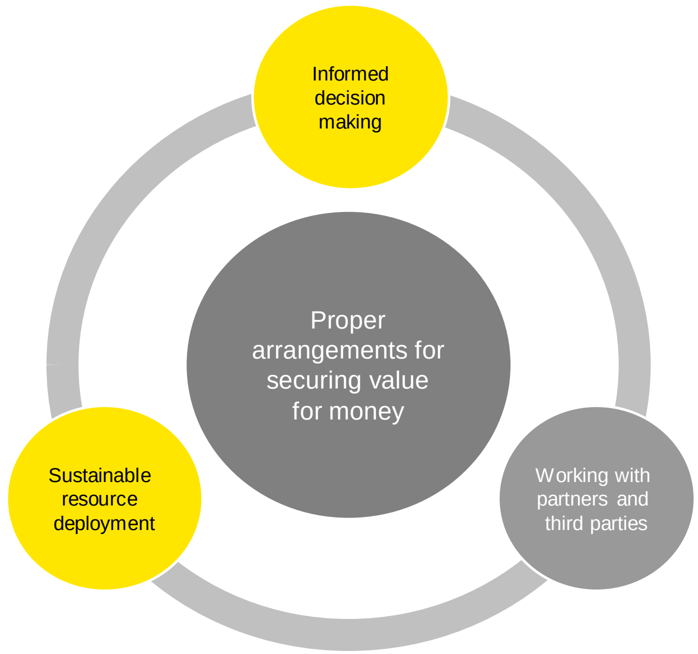
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

We have performed the procedures outlined in our audit plan presented at the Audit & Governance Committee meeting on 28 January 2021.

We identified a significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. These are detailed on Page 24.

We therefore issued an Adverse Qualified value for money conclusion on 29 September 2021.



Value for Money

The key issues identified as part of our audit were as follows: (cont'd)

Value for Money	Conclusion
We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk: In February 2017 we issued Section 24 Schedule 7(2) Statutory Recommendations covering a number of areas. In 2016/17 and 2017/18 the value for money conclusion was qualified due to the issues arising and identified in our report. Whilst we can see progress being made and changes coming through at the Council, a number of the issues in our report and covered by the recommendations still existed during the 2018/19 financial year. We therefore need to consider what progress was made during the year and the impact on our report. We have the following matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources for the 2018/19 year. 1) <u>Informed Decision Making:</u> i) In 2016/17 we reported concerns around the reliability of financial management and reporting. We concluded that in 2017/18 this had improved and the Council had managed it's financial performance in a more controlled manner resulting in an underspend of £5m against its core revenue budget which in turn supported an increase in the size of usable General Fund balances. ii) In 2016/17 and 2017/18 we also raised significant findings in respect of the system of internal control in effect at the Council. This focused specifically on concerns around the completion of key reconciliations and the lack of controls around journals. Whilst there was some improvement in respect of addressing these deficiencies this was not consistent or timely in 2018/19 to ensure that all noted deficiencies could be corrected. As a result this finding is noted as not having been fully corrected in 2018/19. 2) <u>Working with Partners and Third Parties:</u> i) In August 2016 Ofsted reported significant findings in respect of the provision of Children's services at Reading Borough Council. Given their significance this impacted on our value for money conclusion in 2016/17 and 2017/18. We committed to following up on this area in 2018/19. We reviewed the subsequent Ofsted inspection reports for 2018/19 and noted that despite pockets of improvement the consistent tone of the messaging in 2018/19 was still one which continued to raise concerns. Given the lack of sustained improvement and the continued concerns of the regulator this has therefore again impacted on our conclusions regarding the Working with Partners and Third Parties sub-criteria.	

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. Due to the delay in certifying the 2018/19 accounts we did not need to complete the WGA review as the national process was closed.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit & Governance Committee on 19 July 2021. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit identified a number of controls issues which we brought to the attention of the Audit & Governance Committee.

Section 6

Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be updated, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the revised 2021/22 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

Appendix A

Audit Fees

Audit Fees

Our base fee for 2018/19 is in line with the scale fee set by the PSAA / as agreed with your in our Engagement Letter and reported in our 19 July 2021 Audit Results Report.

Description	Final Fee 2018/19 £	Scale Fee 2018/19 £	Final Fee 2017/18 £
Audit Fee – Code work (NB scale fee = planned fee for 2018/19)	108,938	108,938	108,938
Additional Fee*	TBC**		419,366*
Total Audit Fee	TBC**		528,304

All figures are exclusive of VAT

- Note 1 – Due to the extensive and pervasive issues identified during the 2017/18 audit certification was delayed by approximately 1.5 years and required significant additional audit input including significant specialist input. The 2017/18 accounts were qualified on a number of specific areas. An additional fee of £419,366 was incurred and this was approved by Public Sector Audit Appointments Ltd (PSAA) in January 2021 following review.
- Note 2 – We have quantified the additional fees incurred on the 2018/19 audit and submitted this to PSAA for consideration. PSAA as part of the process of approval will also speak with the Director of Finance. As soon as the fee has been approved we will report this to the Audit & Governance Committee at the earliest opportunity.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

EY-000070901-01 (UK) 07/18. CSG London.

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com